



**FOR IMMEDIATE RELEASE**

**Ref: 11-28**

**Contact:** Tabitha Zane  
Vice President, Investor Relations  
919-431-1529

## **Highwoods Properties Reports Third Quarter 2011 Results**

### **\$0.65 FFO per Diluted Share**

*Excluding Impairment on Depreciable Assets and Acquisition Costs  
and Including Merchant Build Gain*

### **Leases 1.7 Million Square Feet**

### **Narrows 2011 FFO Guidance to \$2.56 to \$2.58 per Share**

*Previously \$2.52 to \$2.60 per Share*

**RALEIGH, NC – October 27, 2011 – Highwoods Properties, Inc. (NYSE: HIW)** today reported results for the three and nine months ended September 30, 2011.

Ed Fritsch, President and CEO, stated, *"It was a very productive third quarter for Highwoods. We leased 1.7 million square feet, including 1.1 million square feet of second generation office space, the highest amount of second generation office leased since the third quarter of 2007. Occupancy in our wholly owned portfolio was 89.3%, 60 basis points lower than June 30, 2011, primarily due to the acquisitions of PPG Place and Riverwood 100 which had a combined occupancy of 82.8% on two million square feet. On a same property basis, occupancy increased 80 basis points to 90.2% year-over-year."*

*During the quarter, we deployed \$300 million through the acquisition of two Class A office assets: PPG Place, a 1.54 million square foot, six-building complex in Pittsburgh, and Riverwood 100, a 503,000 square foot property in Atlanta. PPG Place is an institutional quality, iconic office complex with meaningful leasing upside in the heart of downtown, Pittsburgh's dominant submarket. The acquisition of Riverwood 100 enhances the overall quality of our Atlanta portfolio and gives us an excellent position in another key infill submarket.*

*We are very pleased to report that subsequent to the close of the third quarter, we have signed leases totaling 61,000 square feet at these properties. This includes a full floor lease at PPG Place One totaling 23,000 square feet and two leases at Riverwood 100 totaling 38,000 square feet, representing 3.0% of the total acquired square footage.*

*We also generated \$21.5 million from the sale of non-core assets in Winston-Salem and our 10% interest in a recent GSA build-to-suit in Charlotte. In addition, immediately after quarter end, we prepaid, without penalty, a \$184 million, 7% loan secured by the Country Club Plaza that was scheduled to mature in January 2012."*

The Company noted that during the third quarter it signed a 129,000 square foot lease with an existing customer, consisting of a 97,000 square foot renewal and a 32,000 square foot expansion, at Metrowest and Cambridge, two non-core properties in Orlando.

*“This leasing brings occupancy at these non-core properties to an average of 96.3%, facilitating our ability to now market these assets for sale,”* added Fritsch.

The following table illustrates the impact of this lease on a number of third quarter office leasing statistics:

|                              | As Reported | Excluding<br>Orlando Lease |
|------------------------------|-------------|----------------------------|
| Cash Rent Growth             | -12.4%      | -8.8%                      |
| GAAP Rent Growth             | 1.4%        | 1.0%                       |
| Total Leasing Capex (per SF) | \$16.74     | \$11.46                    |
| Lease Term (years)           | 5.4         | 4.7                        |

The Company also noted that it expensed \$765,000 in pre-development costs in the third quarter related to the termination of a proposed Kansas City office project.

### Third Quarter and Nine Month Financial Results

Funds from Operations (“FFO”) was \$42.7 million, or \$0.56 per diluted share, for the third quarter of 2011 and \$134.5 million, or \$1.77 per diluted share, for first nine months of 2011. Excluding a preferred stock redemption charge, debt extinguishment and expensed property acquisition costs and impairment on the non-core Orlando properties referenced above, FFO per diluted share for the three and nine months ended September 30, 2011 would have been \$0.65 and \$1.88, respectively. In the third quarter of 2010, FFO was \$43.2 million, or \$0.57 per diluted share, and \$137.7 million, or \$1.82 per diluted share, for the first nine months of 2010. Excluding debt extinguishment and expensed property acquisitions costs and impairments on depreciable assets, FFO per diluted share for the third quarter and first nine months of 2010 would have been \$0.58 and \$1.83, respectively.

For the third quarter of 2011, the Company reported net income available for common stockholders of \$7.0 million, or \$0.10 per diluted share. Net income available for common stockholders for the third quarter of 2010 was \$6.9 million, or \$0.10 per diluted share. For the nine months ended September 30, 2011, net income available for common stockholders was \$27.3 million, or \$0.38 per diluted share. For the nine months ended September 30, 2010, net income available for common stockholders was \$52.8 million, or \$0.74 per diluted share, which included a \$0.34 per share gain from the sale of the Company’s unconsolidated equity interests in the Des Moines joint ventures.

Except as specifically noted below, the following items were included in the determination of net income and FFO for the three and nine months ended September 30, 2011 and 2010:

|  | 3 Months Ended<br>9/30/11 |                  | 3 Months Ended<br>9/30/10 |                  |
|--|---------------------------|------------------|---------------------------|------------------|
|  | <u>(000)</u>              | <u>Per Share</u> | <u>(000)</u>              | <u>Per Share</u> |
| Lease termination income   | \$ 690                    | \$ 0.009         | \$ 362                    | \$ 0.005         |
| Property acquisition costs   | (4,260)                   | (0.056)          | (249)                     | (0.003)          |
| Straight line rental income  | 2,816                     | 0.037            | 2,975                     | 0.039            |
| Capitalized interest   | 169                       | 0.002            | 392                       | 0.005            |
| Land sale gains  | 262                       | 0.003            | -                         | 0.000            |
| Gains on sales of depreciable assets (1)   | 2,573                     | 0.034            | 19                        | 0.000            |
| Merchant build gain from sale of<br>unconsolidated equity interest in joint ventures (2) | 2,282                     | 0.030            | -                         | 0.000            |
| Gains (losses) on for-sale residential condos,<br>net of partner's interest              | (476)                     | (0.006)          | 493                       | 0.007            |
| Loss on debt extinguishment  | -                         | 0.000            | (85)                      | (0.001)          |
| Impairment on depreciable assets   | (2,429)                   | (0.032)          | -                         | 0.000            |

|  | 9 Months Ended<br>9/30/11 |                  | 9 Months Ended<br>9/30/10 |                  |
|--|---------------------------|------------------|---------------------------|------------------|
|  | <u>(000)</u>              | <u>Per Share</u> | <u>(000)</u>              | <u>Per Share</u> |
| Lease termination income   | \$ 982                    | \$ 0.013         | \$ 2,617                  | \$ 0.035         |
| Property acquisition costs   | (4,334)                   | (0.057)          | (376)                     | (0.005)          |
| Straight line rental income  | 9,096                     | 0.119            | 7,822                     | 0.104            |
| Capitalized interest   | 513                       | 0.007            | 1,115                     | 0.015            |
| Land sale gains  | 462                       | 0.006            | -                         | 0.000            |
| Gains on sales of depreciable assets (1)   | 2,573                     | 0.034            | 229                       | 0.003            |
| Merchant build gain on sale of unconsolidated<br>equity interests in joint venture (2) | 2,282                     | 0.030            | -                         | 0.000            |
| Gain on sale of unconsolidated equity<br>interests in joint ventures (1)               | -                         | 0.000            | 25,330                    | 0.335            |
| Preferred stock redemption charge  | (1,895)                   | (0.025)          | -                         | 0.000            |
| Gains (losses) on for-sale residential condos,<br>net of partner's interest            | (322)                     | (0.004)          | 802                       | 0.011            |
| Loss on debt extinguishments   | (24)                      | 0.000            | (85)                      | (0.001)          |
| Impairments on depreciable assets  | (2,429)                   | (0.032)          | (260)                     | (0.003)          |

(1) Not included in the determination of FFO

(2) Included in the determination of FFO because such gain is a merchant build gain and not a gain on depreciable operating properties.

### Funds from Operations Outlook

The Company has updated and narrowed its 2011 FFO outlook from \$2.52 to \$2.60 per share to \$2.56 to \$2.58 per share. The Company's FFO guidance excludes the impact of property acquisition costs, losses on debt extinguishment and preferred stock redemption charges.

The Company noted that it previously expected a customer to terminate its lease for 2800 Century Center at year-end 2011 upon payment of a \$3.2 million termination fee. The impact of this termination on 2011 FFO, net of a corresponding straight-line rent write-off, was expected to be \$1.8 million. The Company now believes this customer will retain all of the space through the first half of 2012 that has not already been re-leased to other customers. As a result, only a portion of the termination fee will be recorded in 2011 and the remainder in 2012.

Management's outlook for 2011 is now based on the following assumptions:

|  | <b>Low</b> | <b>High</b> |
|--|------------|-------------|
| Year End Occupancy                                 | 89.0%      | 90.0%       |
| Same Property Cash NOI Growth                      | -0.5%      | 0.5%        |
| Straight Line Rental Income                        | \$12.0M    | \$13.0M     |
| G&A Expenses, excluding property acquisition costs | \$31.0M    | \$32.0M     |
| Lease Termination Income                           | \$2.0M     | \$2.5M      |
| Dispositions                                       | \$25M      | \$75M       |
| Acquisitions                                       | \$309M     | \$309M      |
| Development Starts                                 | \$0M       | \$50M       |

The Company's FFO outlook reflects management's view of current and future market conditions, including assumptions with respect to rental rates, occupancy levels, operating and general and administrative expenses, interest rates and development deliveries. It does not include any effects related to the timing and amount of potential acquisitions and dispositions. The Company's FFO outlook also excludes any gains or impairments associated with depreciable operating properties or joint venture interests as well as unusual charges or credits that may occur during the year. The Company's FFO outlook is based on 76.2 million weighted average diluted shares expected to be outstanding on average throughout 2011. Factors that could cause actual 2011 FFO results to differ materially from Highwoods' current expectations are discussed below and are also detailed in the Company's 2010 Annual Report on Form 10-K and subsequent SEC reports.

#### **Planned Dates for Financial Releases and Conference Calls in 2012**

The Company has set the following dates and times it currently plans to release its financial results in 2012. Quarterly financial press releases will be distributed after the market closes and the conference calls will be held at 11:00 a.m. Eastern time.

| <b>Quarterly Result</b> | <b>Release Date</b> | <b>Conference Call</b> |
|-------------------------|---------------------|------------------------|
| Fourth                  | Tuesday, February 7 | Wednesday, February 8  |
| First                   | Tuesday, May 1      | Wednesday, May 2       |
| Second                  | Thursday, July 26   | Friday, July 27        |
| Third                   | Tuesday, October 30 | Wednesday, October 31  |

#### **Supplemental Information**

A copy of the Company's third quarter 2011 Supplemental Information that includes financial, leasing and operational statistics is available in the "Investor Relations/Financial Supplementals" section of the Company's Web site at [www.highwoods.com](http://www.highwoods.com). You may also obtain a copy of all Supplemental Information published by the Company by contacting Highwoods Investor Relations at 919-431-1529/ 800-256-2963 or by e-mail to [HIW-IR@highwoods.com](mailto:HIW-IR@highwoods.com). If you would like to receive future Supplemental Information packages by e-mail, please contact the Investor Relations department as noted above or by written request to: Investor Relations Department, Highwoods Properties, Inc., 3100 Smoketree Court, Suite 600, Raleigh, NC 27604.

#### **Conference Call**

Tomorrow, Friday, October 28, at 10:00 a.m. Eastern time, Highwoods will host a teleconference call to discuss the matters outlined in this press release. For US/Canada callers, dial (800) 622-2443. A live, listen-only Web cast can be accessed through the Company's Web site at [www.highwoods.com](http://www.highwoods.com) under the "Investor Relations" section. A replay of the call will be available on the Investor Relations section of Highwoods web site at [www.highwoods.com](http://www.highwoods.com).

**Non-GAAP Information**

Funds from Operations (“FFO”): We believe that FFO and FFO per share are beneficial to management and investors and are important indicators of the performance of any equity REIT. Because FFO and FFO per share calculations exclude such factors as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets, which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates, they facilitate comparisons of operating performance between periods and between other REITs. Our management believes that historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient on a stand-alone basis. As a result, management believes that the use of FFO and FFO per share, together with the required GAAP presentations, provide a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing and investing activities.

FFO and FFO per share are non-GAAP financial measures and therefore do not represent net income or net income per share as defined by GAAP. Net income and net income per share as defined by GAAP are the most relevant measures in determining our operating performance because FFO and FFO per share include adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization. Furthermore, FFO per share does not depict the amount that accrues directly to the stockholders’ benefit. Accordingly, FFO and FFO per share should never be considered as alternatives to net income or net income per share as indicators of our operating performance.

Our presentation of FFO is consistent with FFO as defined by NAREIT, which is calculated as follows:

- Net income (loss) computed in accordance with GAAP;
- Less dividends to holders of preferred stock and less excess of preferred stock redemption cost over carrying value;
- Less net income attributable to non-controlling interests in consolidated affiliates;
- Plus depreciation and amortization of real estate assets;
- Less gains, or plus losses, from sales of depreciable operating properties (but excluding impairment losses) and excluding items that are classified as extraordinary items under GAAP;
- Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect FFO on the same basis); and
- Plus or minus adjustments for depreciation and amortization and gains/(losses) on sales and non-controlling interests in consolidated affiliates related to discontinued operations.

In calculating FFO, the Company adds back net income attributable to non-controlling interests in its operating partnership, which we believe is consistent with standard industry practice for REITs that operate through an UPREIT structure. The Company believes that it is important to present FFO on an as-converted basis since all of the operating partnership units not owned by the Company are redeemable on a one-for-one basis for shares of the Company’s common stock. The Company’s FFO calculations are reconciled to net income in a table included with this release.

Net operating income from continuing operations (“NOI”): The Company defines NOI as “Rental and other revenues” from continuing operations less “Rental property and other expenses” from continuing operations. Management believes that NOI is a useful supplemental measure of the Company’s property operating performance because it provides a performance measure of the revenues and expenses directly involved in owning real estate assets, and provides a perspective not immediately apparent from net income or FFO. Other REITs may use different methodologies to calculate NOI and accordingly the Company’s NOI may not be comparable to other REITs. The Company’s NOI calculations are reconciled to “Income/(loss) before disposition of property and condominiums and

Highwoods Properties

equity in earnings of unconsolidated affiliates” and to “Rental and other revenues” and “Rental property and other expenses” in a table included with this release.

Same property NOI from continuing operations: The Company defines same property NOI as NOI for the Company’s in-service properties included in continuing operations that were wholly-owned during the entirety of the periods presented (from January 1, 2010 to September 30, 2011). The Company’s same property NOI calculations are reconciled to NOI in a table included with this release.

### **About Highwoods Properties**

Highwoods Properties, headquartered in Raleigh, North Carolina, is a publicly traded (NYSE:HIW) real estate investment trust (“REIT”) and a member of the S&P MidCap 400 Index. The Company is a fully integrated, self-administered REIT that provides leasing, management, development, construction and other customer-related services for its properties and for third parties. At September 30, 2011, Highwoods owned or had an interest in 337 in-service office, industrial and retail properties encompassing approximately 34.5 million square feet and owned 601 acres of development land. The Company’s properties and development land are located in Florida, Georgia, Mississippi, Missouri, North Carolina, Pennsylvania, South Carolina, Tennessee and Virginia. For more information about Highwoods Properties, please visit our web site at [www.highwoods.com](http://www.highwoods.com).

Certain matters discussed in this press release, such as expected 2011 financial and operational results and the related assumptions underlying our expected results, are forward-looking statements within the meaning of the federal securities laws. These statements are distinguished by use of the words “will”, “expect”, “intend” and words of similar meaning. Although Highwoods believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved.

Factors that could cause actual results to differ materially from Highwoods’ current expectations include, among others, the following: the financial condition of our customers could deteriorate; development activity by our competitors in our existing markets could result in excessive supply of properties relative to customer demand; development, acquisition, reinvestment, disposition or joint venture projects may not be completed as quickly or on as favorable terms as anticipated; we may not be able to lease or re-lease second generation space quickly or on as favorable terms as old leases; our markets may suffer declines in economic growth; we may not be able to lease our newly constructed buildings as quickly or on as favorable terms as originally anticipated; unanticipated increases in interest rates could increase our debt service costs; unanticipated increases in operating expenses could negatively impact our NOI; we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or to repay or refinance outstanding debt upon maturity; the Company could lose key executive officers; and others detailed in the Company’s 2010 Annual Report on Form 10-K and subsequent SEC reports.

### **Tables Follow**

**Highwoods Properties, Inc.**  
**Consolidated Statements of Income**  
(Unaudited and in thousands, except per share amounts)

|   | <b>Three Months Ended<br/>September 30,</b> |                 | <b>Nine Months Ended<br/>September 30,</b> |                  |
|---|---|-----------------|--|------------------|
|   | <b>2011</b>                                 | <b>2010</b>     | <b>2011</b>                                | <b>2010</b>      |
| <b>Rental and other revenues</b>  | \$ 122,086                                  | \$ 115,528      | \$ 354,122                                 | \$ 343,796       |
| <b>Operating expenses:</b>  |   |                 |  |                  |
| Rental property and other expenses  | 46,019                                      | 43,339          | 128,360                                    | 122,986          |
| Depreciation and amortization   | 36,320                                      | 34,183          | 103,467                                    | 100,081          |
| Impairment of assets held for use   | 2,429                                       | -               | 2,429                                      | -                |
| General and administrative  | 12,212                                      | 8,882           | 27,983                                     | 24,369           |
| Total operating expenses  | 96,980                                      | 86,404          | 262,239                                    | 247,436          |
| <b>Interest expense:</b>  |   |                 |  |                  |
| Contractual   | 23,356                                      | 22,020          | 68,727                                     | 65,527           |
| Amortization of deferred financing costs  | 806   | 858             | 2,448                                      | 2,528            |
| Financing obligations   | 228   | 460             | 665  | 1,330            |
|   | 24,390                                      | 23,338          | 71,840                                     | 69,385           |
| <b>Other income:</b>  |   |                 |  |                  |
| Interest and other income   | 1,505                                       | 1,709           | 5,277                                      | 4,374            |
| Loss on debt extinguishment   | -   | (85)            | (24)                                       | (85)             |
|   | 1,505                                       | 1,624           | 5,253                                      | 4,289            |
| <b>Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates</b> | 2,221                                       | 7,410           | 25,296                                     | 31,264           |
| Gains on disposition of property  | 262   | 19              | 462  | 55               |
| Gains/(losses) on for-sale residential condominiums   | (476)                                       | 54              | (322)                                      | 407              |
| Gains on disposition of investment in unconsolidated affiliates   | 2,282                                       | -               | 2,282                                      | 25,330           |
| Equity in earnings of unconsolidated affiliates   | 1,113                                       | 1,018           | 3,933                                      | 2,701            |
| <b>Income from continuing operations</b>  | 5,402                                       | 8,501           | 31,651                                     | 59,757           |
| <b>Discontinued operations:</b>   |   |                 |  |                  |
| Income from discontinued operations   | 269   | 272             | 897  | 1,233            |
| Net gains/(losses) on disposition of discontinued operations  | 2,573                                       | -               | 2,573                                      | (86)             |
|   | 2,842                                       | 272             | 3,470                                      | 1,147            |
| <b>Net income</b>   | 8,244                                       | 8,773           | 35,121                                     | 60,904           |
| Net (income) attributable to noncontrolling interests in the Operating Partnership  | (366)                                       | (366)           | (1,496)                                    | (2,819)          |
| Net (income)/loss attributable to noncontrolling interests in consolidated affiliates   | (249)                                       | 148             | (554)                                      | (281)            |
| Dividends on preferred stock  | (627)                                       | (1,677)         | (3,926)                                    | (5,031)          |
| Excess of preferred stock redemption/repurchase cost over carrying value  | -   | -               | (1,895)                                    | -                |
| <b>Net income available for common stockholders</b>   | <u>\$ 7,002</u>                             | <u>\$ 6,878</u> | <u>\$ 27,250</u>                           | <u>\$ 52,773</u> |
| <b>Earnings per common share - basic:</b>   |   |                 |  |                  |
| Income from continuing operations available for common stockholders   | \$ 0.06                                     | \$ 0.10         | \$ 0.33                                    | \$ 0.72          |
| Income from discontinued operations available for common stockholders   | 0.04  | -               | 0.05                                       | 0.02             |
| Net income available for common stockholders  | <u>\$ 0.10</u>                              | <u>\$ 0.10</u>  | <u>\$ 0.38</u>                             | <u>\$ 0.74</u>   |
| Weighted average common shares outstanding - basic  | <u>72,492</u>                               | <u>71,631</u>   | <u>72,176</u>                              | <u>71,549</u>    |
| <b>Earnings per common share - diluted:</b>   |   |                 |  |                  |
| Income from continuing operations available for common stockholders   | \$ 0.06                                     | \$ 0.10         | \$ 0.33                                    | \$ 0.72          |
| Income from discontinued operations available for common stockholders   | 0.04  | -               | 0.05                                       | 0.02             |
| Net income available for common stockholders  | <u>\$ 0.10</u>                              | <u>\$ 0.10</u>  | <u>\$ 0.38</u>                             | <u>\$ 0.74</u>   |
| Weighted average common shares outstanding - diluted  | <u>76,402</u>                               | <u>75,638</u>   | <u>76,127</u>                              | <u>75,537</u>    |
| <b>Dividends declared per common share</b>  | <u>\$ 0.425</u>                             | <u>\$ 0.425</u> | <u>\$ 1.275</u>                            | <u>\$ 1.275</u>  |
| <b>Net income available for common stockholders:</b>  |   |                 |  |                  |
| Income from continuing operations available for common stockholders   | \$ 4,301                                    | \$ 6,620        | \$ 23,953                                  | \$ 51,684        |
| Income from discontinued operations available for common stockholders   | 2,701                                       | 258             | 3,297                                      | 1,089            |
| Net income available for common stockholders  | <u>\$ 7,002</u>                             | <u>\$ 6,878</u> | <u>\$ 27,250</u>                           | <u>\$ 52,773</u> |

**Highwoods Properties, Inc.**  
**Consolidated Balance Sheets**  
*(Unaudited and in thousands)*

|  | <u>September 30,</u><br><u>2011</u> | <u>December 31,</u><br><u>2010</u> |
|--|-------------------------------------|------------------------------------|
| <b>Assets:</b>   |                                     |                                    |
| Real estate assets, at cost:   |                                     |                                    |
| Land   | \$ 368,948                          | \$ 345,088                         |
| Buildings and tenant improvements  | 3,115,149                           | 2,883,092                          |
| Development in process   | 7,576                               | 4,524                              |
| Land held for development  | 106,975                             | 107,101                            |
|  | <u>3,598,648</u>                    | <u>3,339,805</u>                   |
| Less-accumulated depreciation  | <u>(878,702)</u>                    | <u>(830,153)</u>                   |
| Net real estate assets   | 2,719,946                           | 2,509,652                          |
| For-sale residential condominiums  | 4,995                               | 8,225                              |
| Real estate and other assets, net, held for sale   | -                                   | 13,607                             |
| Cash and cash equivalents  | 11,088                              | 14,206                             |
| Restricted cash  | 23,230                              | 4,399                              |
| Accounts receivable, net of allowance of \$3,581 and \$3,595, respectively                                   | 23,443                              | 20,716                             |
| Mortgages and notes receivable, net of allowance of \$545 and \$868, respectively                            | 18,706                              | 19,044                             |
| Accrued straight-line rents receivable, net of allowance of \$1,366 and \$2,209, respectively                | 102,338                             | 93,178                             |
| Investment in and advances to unconsolidated affiliates  | 99,910                              | 63,607                             |
| Deferred financing and leasing costs, net of accumulated amortization of \$60,950 and \$59,360, respectively | 129,311                             | 85,001                             |
| Prepaid expenses and other assets  | 38,940                              | 40,200                             |
|  | <u>\$ 3,171,907</u>                 | <u>\$ 2,871,835</u>                |
| Total Assets   |                                     |                                    |
| <b>Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:</b>                        |                                     |                                    |
| Mortgages and notes payable  | \$ 1,893,981                        | \$ 1,522,945                       |
| Accounts payable, accrued expenses and other liabilities   | 127,664                             | 106,716                            |
| Financing obligations  | 32,775                              | 33,114                             |
| Total Liabilities  | <u>2,054,420</u>                    | <u>1,662,775</u>                   |
| Noncontrolling interests in the Operating Partnership  | 105,995                             | 120,838                            |
| Equity:  |                                     |                                    |
| Preferred stock  | 29,077                              | 81,592                             |
| Common stock   | 726                                 | 717                                |
| Additional paid-in capital   | 1,807,107                           | 1,766,886                          |
| Distributions in excess of net income available for common stockholders                                      | (826,435)                           | (761,785)                          |
| Accumulated other comprehensive loss   | (3,606)                             | (3,648)                            |
| Total Stockholders' Equity   | <u>1,006,869</u>                    | <u>1,083,762</u>                   |
| Noncontrolling interests in consolidated affiliates  | 4,623                               | 4,460                              |
| Total Equity   | <u>1,011,492</u>                    | <u>1,088,222</u>                   |
| Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity                          | <u>\$ 3,171,907</u>                 | <u>\$ 2,871,835</u>                |



**Highwoods Properties, Inc.**  
**Funds from Operations**  
(Unaudited and in thousands, except per share amounts)

|   | <b>Three Months Ended<br/>September 30,</b> |                  | <b>Nine Months Ended<br/>September 30,</b> |                   |
|---|---|------------------|--|-------------------|
|   | <b>2011</b>                                 | <b>2010</b>      | <b>2011</b>                                | <b>2010</b>       |
| <b>Funds from operations:</b>   |   |                  |  |                   |
| Net income  | \$ 8,244                                    | \$ 8,773         | \$ 35,121                                  | \$ 60,904         |
| Net (income) attributable to noncontrolling interests in the Operating Partnership    | (366)                                       | (366)            | (1,496)                                    | (2,819)           |
| Net (income)/loss attributable to noncontrolling interests in consolidated affiliates | (249)                                       | 148              | (554)                                      | (281)             |
| Dividends on preferred stock  | (627)                                       | (1,677)          | (3,926)                                    | (5,031)           |
| Excess of preferred stock redemption/repurchase cost over carrying value              | -   | -                | (1,895)                                    | -                 |
| <b>Net income available for common stockholders</b>                                   | <b>7,002</b>                                | <b>6,878</b>     | <b>27,250</b>                              | <b>52,773</b>     |
| Add/(deduct):   |   |                  |  |                   |
| Depreciation and amortization of real estate assets                                   | 35,803                                      | 33,739           | 102,057                                    | 98,790            |
| (Gains) on disposition of depreciable properties                                      | -   | (19)             | -  | (55)              |
| (Gains) on disposition of investment in unconsolidated affiliates                     | -   | -                | -  | (25,330)          |
| Net income attributable to noncontrolling interests in the Operating Partnership      | 366   | 366              | 1,496                                      | 2,819             |
| Unconsolidated affiliates:  |   |                  |  |                   |
| Depreciation and amortization of real estate assets                                   | 2,066                                       | 2,115            | 6,192                                      | 8,193             |
| Discontinued operations:  |   |                  |  |                   |
| Depreciation and amortization of real estate assets                                   | -   | 98               | 127  | 647               |
| (Gains) on disposition of depreciable properties                                      | (2,573)                                     | -                | (2,573)                                    | (174)             |
| <b>Funds from operations</b>  | <b>\$ 42,664</b>                            | <b>\$ 43,177</b> | <b>\$ 134,549</b>                          | <b>\$ 137,663</b> |
| <b>Funds from operations per share - diluted:</b>                                     |   |                  |  |                   |
| Net income available for common stockholders  | \$ 0.10                                     | \$ 0.10          | \$ 0.38                                    | \$ 0.74           |
| Add/(deduct):   |   |                  |  |                   |
| Depreciation and amortization of real estate assets                                   | 0.46  | 0.44             | 1.34                                       | 1.30              |
| (Gains) on disposition of depreciable properties                                      | -   | -                | -  | -                 |
| (Gains) on disposition of investment in unconsolidated affiliates                     | -   | -                | -  | (0.34)            |
| Unconsolidated affiliates:  |   |                  |  |                   |
| Depreciation and amortization of real estate assets                                   | 0.03  | 0.03             | 0.08                                       | 0.11              |
| Discontinued operations:  |   |                  |  |                   |
| Depreciation and amortization of real estate assets                                   | -   | -                | -  | 0.01              |
| (Gains) on disposition of depreciable properties                                      | (0.03)                                      | -                | (0.03)                                     | -                 |
| <b>Funds from operations per share - diluted</b>                                      | <b>\$ 0.56</b>                              | <b>\$ 0.57</b>   | <b>\$ 1.77</b>                             | <b>\$ 1.82</b>    |
| <b>Weighted average shares outstanding - diluted</b>                                  | <b>76,402</b>                               | <b>75,638</b>    | <b>76,127</b>                              | <b>75,537</b>     |

**Highwoods Properties, Inc.**  
**Net Operating Income Reconciliation**  
*(Unaudited and in thousands)*

|   | <b>Three Months Ended</b> |                  | <b>Nine Months Ended</b> |                   |
|---|---------------------------|------------------|--------------------------|-------------------|
|   | <b>September 30,</b>      |                  | <b>September 30,</b>     |                   |
|   | <b>2011</b>               | <b>2010</b>      | <b>2011</b>              | <b>2010</b>       |
| <b>Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates</b> | \$ 2,221                  | \$ 7,410         | \$ 25,296                | \$ 31,264         |
| Other income  | (1,505)                   | (1,624)          | (5,253)                  | (4,289)           |
| Interest expense  | 24,390                    | 23,338           | 71,840                   | 69,385            |
| General and administrative expense  | 12,212                    | 8,882            | 27,983                   | 24,369            |
| Impairment of assets held for use   | 2,429                     | -                | 2,429                    | -                 |
| Depreciation and amortization expense   | 36,320                    | 34,183           | 103,467                  | 100,081           |
| <b>Net operating income from continuing operations</b>  | <b>76,067</b>             | <b>72,189</b>    | <b>225,762</b>           | <b>220,810</b>    |
| Less - non same property and other net operating income   | 5,571                     | 3,224            | 13,329                   | 7,992             |
| <b>Total same property net operating income from continuing operations</b>  | <b>\$ 70,496</b>          | <b>\$ 68,965</b> | <b>\$ 212,433</b>        | <b>\$ 212,818</b> |
|   |                           |                  |                          |                   |
| Rental and other revenues   | \$ 122,086                | \$ 115,528       | \$ 354,122               | \$ 343,796        |
| Rental property and other expenses  | 46,019                    | 43,339           | 128,360                  | 122,986           |
| <b>Total net operating income from continuing operations</b>  | <b>76,067</b>             | <b>72,189</b>    | <b>225,762</b>           | <b>220,810</b>    |
| Less - non same property and other net operating income   | 5,571                     | 3,224            | 13,329                   | 7,992             |
| <b>Total same property net operating income from continuing operations</b>  | <b>\$ 70,496</b>          | <b>\$ 68,965</b> | <b>\$ 212,433</b>        | <b>\$ 212,818</b> |
|   |                           |                  |                          |                   |
| Total same property net operating income from continuing operations   | \$ 70,496                 | \$ 68,965        | \$ 212,433               | \$ 212,818        |
| Less - straight line rent and lease termination fees  | 2,269                     | 3,170            | 8,286                    | 9,206             |
| <b>Same property cash net operating income from continuing operations</b>   | <b>\$ 68,227</b>          | <b>\$ 65,795</b> | <b>\$ 204,147</b>        | <b>\$ 203,612</b> |